

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6951

BILL NUMBER: HB 1566

NOTE PREPARED: Jan 27, 2015

BILL AMENDED:

SUBJECT: Tax deduction for mechanical insulation property.

FIRST AUTHOR: Rep. Moed

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill provides an income tax deduction for depreciable costs incurred by a taxpayer to install mechanical insulation property. It defines "mechanical insulation property" as insulation materials used for thermal, acoustical, and personal safety requirements for mechanical piping and equipment, hot and cold applications, and heating, venting, and air conditioning applications. It also provides that the amount of the deduction is the lesser of: (1) 30%; or (2) the percentage of excess energy savings from the installed mechanical insulation property when compared to the minimum energy savings requirements for buildings as published by the American Society of Heating, Refrigerating and Air-Conditioning Engineers (standard 90.1-2007).

Effective Date: January 1, 2016.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR may incur additional expenses in implementing the income tax deduction established by this bill. The DOR's current level of funding and resources should be sufficient to do so.

Explanation of State Revenues: *Summary-* This bill establishes an income tax deduction for installation of mechanical insulation property. The deduction is effective beginning in tax year 2016, and the revenue impact will likely begin in FY 2017. The bill may decrease revenues to the General Fund by approximately \$0.20 to 0.22 M per year.

Note the actual revenue loss may be more or less than estimated to the extent that the uses for mechanical insulation and therefore, the cost estimates of repair and installation of mechanical insulation, differ across U.S. states.

Additional Information-

The federal Mechanical Insulation Installation Incentive Act has been introduced as a federal income tax deduction to encourage commercial and industrial sectors to utilize mechanical insulation in new construction or retrofit projects and appropriately maintain existing mechanical insulation systems. H.R. 4296 was introduced in the 111th Congress (2009-2010), and the Joint Committee on Taxation estimated a total revenue loss to the U.S. Treasury of approximately \$375 M over 5 years, or an average of \$75 M per year.

Since the average cost, and therefore the energy savings, cannot be readily quantified, we provide an estimate based on the Joint Committee on Taxation's estimate. The lower limit of the estimated range considers only corporate taxpayers, while the upper limit additionally considers individual taxpayers using a blended tax rate for both types of taxpayers. The estimates use corporate and blended tax rates for FY 2017.

Explanation of Local Expenditures:

Explanation of Local Revenues: The tax deduction will decrease taxable income, so counties imposing local option income taxes (LOIT) may experience revenue loss of an indeterminable amount. Based on the current median LOIT rate of 1.45%, the statewide revenue loss may be approximately \$0.11 M per year.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Aaron Ringel and Keith Castaldo, "Overview of Mechanical Insulation Installation Incentive Act of 2013" (H.R. 184/S. 775); Ron King, National Insulation Association, 281-360-3438.

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